

Message Text

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TO USMISSION USUN NEW YORK IMMEDIATE

C O N F I D E N T I A L STATE 207573

NODIS

FOLLOWING REPEAT JERUSALEM 1444 ACTION SECSTATE DATED 30 AUG 75

QUOTE

C O N F I D E N T I A L JERUSALEM 1444

NODIS (HANDLE AS EXDIS)

DELIVER AT THE OPENING OF BUSINESS

FOR ENDERS (EB) AND LEWIS (SP) FROM LORD

PLEASE PASS TO MOYNIHAN FOR HIS REVIEW

E.O. 11652: GDS

TAGS: OVIP (KISSINGER, HENRY A.), UNGA

SUBJECT: UNGA SPEECH

FOLLOWING IS THE COMMODITY SECTION OF DRAFT NUMBER 10.
OTHER SECTIONS WILL COME AS THEY ARE COMPLETED. IN
GOING OVER THIS DRAFT OF THE SPEECH, BE SURE TO CHECK ALL
FIGURES AND FACTS AND FILL IN THE BLANKS IN
ADDITION TO OTHER COMMENTS. PLEASE PASS THE ENTIRE DRAFT
TO MOYNIHAN FOR HIS REVIEW. WE NEED YOUR COMMENTS DY
MIDDAY SUNDAY.
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BEGIN TEYT:

1. EXPORTS OF PRIMARY PRODUCTS -- RAW MATERIALS AND
OTHER COMMODITIES -- ARE CRUCIAL TO THE INCOMES OF DEVELOP-
ING COUNTRIES. THEEARNINGS CAN LIFT LIVING STANDARDS

ABOVE BARE SUBSISTENCE; GENERATE PROFITS TO SUPPORT THE FIRST STEPS OF INDUSTRIALIZATION; AND PROVIDE TAX REVENUES FOR EDUCATION, HEALTH, AND OTHER SOCIAL PROGRAMS FOR DEVELOPMENT. THE HISTORY OF THE UNITED STATES -- AND MANY OTHER COUNTRIES -- CONFIRMS THE IMPORTANCE OF COMMODITIES.

2. BUT THIS PATH CAN BE PRECARIOUS IN AN UNCERTAIN GLOBAL ENVIRONMENT. THOSE DEVELOPING COUNTRIES WHICH ARE NOT OIL EXPORTERS RELY ON PRIMARY COMMODITIES FOR NEARLY TWO-THIRDS OF THEIR EXPORT EARNINGS. YET THEIR SALES OF RAW MATERIALS AND AGRICULTURAL PRODUCTS HAVE NOT GROWN AS FAST AS THOSE OF INDUSTRIAL COUNTRIES. AGRICULTURAL COMMODITIES, PARTICULARLY, ARE VULNERABLE TO THE WHIMS OF WEATHER AND SWINGS OF WORLDWIDE DEMAND. THE MARKET IN MINERALS IS ESPECIALLY SENSITIVE TO THE PENDULUM OF BOOM AND BUST IN THE INDUSTRIAL COUNTRIES. THE RESULT IS A CYCLE OF SCARCITY AND GLUT, OF UNDER-INVESTMENT AND OVERCAPACITY.

3. THEY ARE HIT HARD BY COMMODITY PRICE FLUCTUATIONS AS WELL AS CONSUMERS. HIGHER PRICES FOR ENERGY IMPORTS, SWINGS IN THE PRICE AND SUPPLY OF FOOD, AND GREATER COSTS FOR OTHER ESSENTIAL RAW MATERIALS HAVE BEEN A DEVASTATING BLOW, SOAKING UP AID FUNDS AND THE EARNINGS BY WHICH THEY HOPED TO FINANCE IMPORTS. ALL THIS MAKES A MOCKERY OF DEVELOPMENT PLANS.

4. BUT THE PROBLEMS OF COMMODITIES ARE NOT THE PROBLEMS ONLY OF DEVELOPING COUNTRIES. THE INDUSTRIALIZED COUNTRIES ARE IN FACT THE LARGEST EXPORTERS OF FOOD AND MOST MINERALS. AND CONSUMERS IN INDUSTRIAL COUNTRIES HAVE PAINFULLY LEARNED THAT HIGH COMMODITY PRICES LEAVE THEIR INFLATIONARY IMPACT LONG AFTER THE COMMODITY PRICE HAS TURNED AROUND.

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MARKET HAS TURNED AROUND.

5. THEREFORE BOTH INDUSTRIAL AND DEVELOPING COUNTRIES WOULD BENEFIT FROM MORE STABLE CONDITIONS OF TRADE AND AN EXPANSION OF PRODUCTIVE CAPACITY IN COMMODITIES.

6. MANY SOLUTIONS HAVE BEEN PUT FORWARD TO BENEFIT PRODUCERS OF PARTICULAR PRODUCTS -- CARTELIZATION, PRICE INDEXING, COMMODITY AGREEMENTS AND OTHER METHODS. BUT REALITY DEMONSTRATES THE INTERDEPENDENCE OF ALL OUR ECONOMIES, AND THEREFORE THE NECESSITY FOR APPROACHES THAT SERVE GLOBAL RATHER THAN NARROW INTERESTS.

7. THE MOST VITAL COMMODITY IN THE WORLD IS FOOD. THE UNITED STATES IS BY FAR ITS LARGEST PRODUCER AND SUPPLIER.

WE RECOGNIZE OUR RESPONSIBILITY. WE HAVE ALSO SOUGHT TO MAKE INTERNATIONAL COLLABORATION IN FOOD A MODEL FOR REALISTIC AND COOPERATIVE APPROACHES TO OTHER INTERNATIONAL ECONOMIC ISSUES.

8. THE UNITED STATES POLICY IS NOW ONE OF MAXIMUM PRODUCTION. AT HOME, WE WANT A THRIVING FARM ECONOMY AND MODERATE PRICES FOR CONSUMERS. INTERNATIONALLY, WE WISH COOPERATIVE RELATIONS WITH NATIONS THAT PURCHASE FROM US, AN OPEN AND GROWING MARKET, AND ABUNDANT SUPPLIES TO MEET THE NEEDS OF THE HUNGRY THROUGH BOTH GOOD TIMES AND BAD.

9. FOR HUNDREDS OF MILLIONS OF PEOPLE, FOOD SECURITY IS THE SINGLE MOST CRITICAL NEED IN THEIR LIVES; FOR MANY IT IS A QUESTION OF LIFE ITSELF. BUT FOOD SECURITY MEANS MORE THAN EMERGENCY RELIEF TO DEAL WITH CROP FAILURES, NATURAL DISASTERS AND POCKETS OF FAMINE. IT MEANS REASONABLE STABILITY IN THE AVAILABILITY OF FOOD IN COMMERCIAL MARKETS, SO THAT HARVEST FAILURES IN SOME PARTS OF THE WORLD WILL NOT MAKE FOOD IMPOSSIBLY EXPENSIVE ELSEWHERE. WE HAVE SEEN WITH DRAMATIC FREQUENCY IN RECENT YEARS HOW THE INTERNATIONAL FOOD MARKET, STRAINED TO CAPACITY, CAN SHAKE THE INTERNATIONAL ECONOMY. ITS FLUCTUATIONS HAVE ACCELERATED INFLATION, DEVASTATED DEVELOPMENT PLANS, AND WREAKED HAVOC WITH HUMAN LIVES. YET IN CONFIDENTIAL

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GOOD TIMES, THE WORLD COMMUNITY HAS NOT SUMMONED THE WILL TO TAKE OBVIOUS CORRECTIVE STEPS TO STABILIZE THE MARKET STRUCTURE.

10. THE UNITED STATES BELIEVES THAT A GLOBAL APPROACH TO FOOD SECURITY -- SETTING AN EXAMPLE THAT CAN APPLY TO OTHER COMMODITIES -- SHOULD FOLLOW THESE BASIC PRINCIPLES:

-- THE PROBLEM MUST BE APPROACHED GLOBALLY, COMPREHENSIVELY, AND COOPERATIVELY, BY CONSULTATION AND NEGOTIATION AMONG ALL SIGNIFICANT PRODUCERS AND CONSUMERS;

-- PRODUCERS SHOULD RECOGNIZE THE GLOBAL INTEREST IN STABILITY OF SUPPLY AND CONSUMERS SHOULD RECOGNIZE THE INTEREST OF PRODUCERS IN STABILITY OF MARKETS AND EARNINGS;

-- SPECIAL CONSIDERATION SHOULD BE GIVEN TO THE NEEDS OF DEVELOPING COUNTRIES; AND

-- WHERE VOLATILE DEMAND IS COMBINED WITH LIMITED ABILITY TO MAKE SHORT-TERM INCREASES IN PRODUCTION, STOCKPILING MAY BE THE BEST APPROACH TO ACHIEVING

GREATER SECURITY FOR BOTH CONSUMERS AND PRODUCERS.

11. AT THE WORLD FOOD CONFERENCE LAST NOVEMBER, WHICH WAS CONVENED AT OUR INITIATIVE, THE UNITED STATES PROPOSED A COMPREHENSIVE INTERNATIONAL COOPERATIVE APPROACH TO PROVIDING FOOD SECURITY. WE PROPOSED AN INTERNATIONAL SYSTEM OF NATIONALLY-HELD GRAIN RESERVES, T T AGENCIES AND IMPROVHE MARKET. THE UNITED STATES HAS SINCE THEN OFFERED SPECIFIC PROPOSALS AND BEGUN NEGOTIATIONS. BUT THE INTERNATIONAL EFFORT LAGGED WHEN IMPROVED HARVESTS SEEMED TO DIMINISH THE IMMEDIATE DANGER OF WORLD STARVATION. MY GOVERNMENT TODAY DECLARES THAT IT IS TIME TO CREATE THIS RESERVE SYSTEM. IF WE DO NOT, FUTURE CRISES ARE INEVITABLE.

12. SPECIFICALLY, WE PROPOSE:

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AA TO MEET VIRTUALLY ALL POTENTIAL SHORTFALLS IN FOOD GRAINS PRODUCTION, TOTAL WORLD RESERVES MUST REACH AT LEAST 30 MILLION TONS OF WHEAT IN ADDITION TO COARSE GRAINS.

-- RESPONSIBILITY FOR HOLDING RESERVES SHOULD BE ALLOCATED FAIRLY, TAKING INTO ACCOUNT WEALTH, PRODUCTION AND TRADE. THE UNITED STATES IS PREPARED TO HOLD A MAJOR SHARE.

-- ACQUISITION AND RELEASE OF RESERVES SHOULD BE GOVERNED BY OBJECTIVE STANDARDS RELATING TO CHANGES IN PRODUCTION. (WASHINGTON: CAN WE BE THIS SPECIFIC?)

-- FULL PARTICIPANTS IN THE SYSTEM SHOULD RECEIVE ASSURED ACCESS TO SUPPLIES. AMONG MAJOR PRODUCERS, FULL PARTICIPATION SHOULD REQUIRE COMPLETE EXCHANGE OF INFORMATION AND FORECASTS.

-- SPECIAL ASSISTANCE SHOULD BE EXTENDED TO DEVELOPING COUNTRIES THAT PARTICIPATE, TO ENABLE THEM TO MEET THEIR OBLIGATION TO HOLD A PORTION OF GLOBAL RESERVES.

13. THE UNITED STATES IS READY TO NEGOTIATE THE CREATION OF SUCH A SYSTEM. LET US MOVE AHEAD RAPIDLY.

14. AND LET US APPLY THE SAME APPROACH OF COOPERATION TO OTHER PRIMARY COMMODITIES THAT ARE SIMILARLY BESET BY SWINGS OF PRICE AND SUPPLY -- AND THAT ARE SIMILARLY ESSENTIAL TO THE GLOBAL ECONOMY.

15. THERE IS NO SIMPLE FORMULA THAT WILL APPLY EQUALLY TO ALL COMMODITIES. THE UNITED STATES THEREFORE PROPOSES TO DISCUSS NEW ARRANGEMENTS IN INDIVIDUAL

COMMODITIES ON A CASE-BY-CASE BASIS.

16. WE BELIEVE THE MOST EFFECTIVE TECHNIQUE IN MANY CASES WILL BE TO KEEP BUFFER STOCKS TO MODERATE INSTABILITY IN SUPPLIES AND EARNINGS. WE ALSO BELIEVE THAT PRICE-FIXING ARRANGEMENTS DISTORT THE MARKET, RESTRICT PRODUCTION, AND WASTE RESOURCES FOR EVERYONE. IT IS DEVELOPING COUNTRIES THAT CAN LEAST AFFORD THIS WASTE. RESTRICTED
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PRODUCTION IDLES THE COSTLY EQUIPMENT AND ECONOMIC INFRA-STRUCTURE THAT TAKES YEARS TO BUILD. ARTIFICIALLY HIGH PRICES LEAD CONSUMERS TO MAKE COSTLY INVESTMENT IN DOMESTIC SUBSTITUTES, ULTIMATELY ERODING THE MARKET POWER OF THE TRADITIONAL PRODUCERS.

17. ACCORDINGLY, THE UNITED STATES PROPOSES THE FOLLOWING APPROACH TO COMMODITY ARRANGEMENTS:

-- WE RECOMMEND THAT A CONSUMER-PRODUCER FORUM SHOULD BE ESTABLISHED FOR EVERY KEY COMMODITY TO DISCUSS HOW TO PROMOTE THE EFFICIENCY, GROWTH, AND STABILITY OF ITS MARKET. THIS IS PARTICULARLY IMPORTANT IN THE CASE OF GRAINS, AS I HAVE OUTLINED. IT IS ALSO URGENT IN COPPER, WHERE PRIORITY SHOULD BE GIVEN TO CREATING A FORUM FOR CONSUMER-PRODUCER CONSULTATION.

-- THE FIRST NEW FORMAL INTERNATIONAL AGREEMENT BEING CONCLUDED IS TIN. WE HAVE PARTICIPATED ACTIVELY IN ITS NEGOTIATION. PRESIDENT FORD HAS AUTHORIZED ME TO ANNOUNCE THAT THE UNITED STATES WILL SIGN THE TIN AGREEMENT AND SEEK ITS RATIFICATION BY OUR CONSTITUTIONAL PROCEDURES. WE WELCOME ITS EMPHASIS ON BUFFER STOCKS, ITS AVOIDANCE OF DIRECT PRICE-FIXING, AND ITS BALANCED VOTING SYSTEM. WE WILL RETAIN OUR RIGHT TO SELL FROM OUR STRATEGIC STOCKPILES, AND WE RECOGNIZE THE RIGHT OF OTHERS TO MAINTAIN A SIMILAR PROGRAM.

-- WE WILL PARTICIPATE ACTIVELY IN NEGOTIATIONS ON COFFEE, LOOKING TOWARD A NEW INTERNATIONAL AGREEMENT THAT REDUCES THE LARGE ANNUAL FLUCTUATIONS IN SUPPLY.

-- WE WILL ALSO PARTICIPATE ACTIVELY IN THE FORTH-COMING COCOA AND SUGAR NEGOTIATIONS. AGREEMENTS SHOULD BOTH REDUCE THE RISKS OF INVESTMENT AND MODERATE THE SWINGS IN SUPPLIES.

-- WE WILL SUPPORT LIBERALIZATION OF THE INTERNATIONAL MONETARY FUND'S FINANCING OF BUFFER STOCKS, TO ASSURE THAT THIS FACILITY IS AVAILABLE WITHOUT ENCUMBERING OTHER DRAWING RIGHTS.

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18. I HAVE ALREADY ANNOUNCED MY GOVERNMENT'S BROAD PROPOSAL OF A DEVELOPMENT SECURITY FACILITY -- A MORE FUNDAMENTAL APPROACH TO STABILIZING THE OVERALL EARNINGS OF COUNTRIES DEPENDENT ON COMMODITIES TRADE. MY GOVERNMENT ALSO BELIEVES THAT AN EFFECTIVE APPROACH TO THE COMMODITIES PROBLEM REQUIRES A COMPREHENSIVE PROGRAM OF INVESTMENT TO EXPAND WORLDWIDE CAPACITY IN MINERALS AND OTHER CRITICAL RAW MATERIALS. THIS IS BASIC TO THE HEALTH OF BOTH INDUSTRIAL AND DEVELOPING ECONOMIES.

19. THERE ARE PRESENTLY NO SHORTAGES IN MOST BASIC RAW MATERIALS; NOR ARE ANY LIKELY IN THE NEXT TWO OR THREE YEARS. BUT THE ADEQUACY OF SUPPLIES IN YEARS TO COME WILL BE DETERMINED BY INVESTMENT DECISIONS TAKEN NOW. BECAUSE THE TECHNOLOGY FOR PROCESSING LOWER-GRADE ORES IS EXTREMELY COMPLEX, AND THE FINANCING REQUIREMENTS FOR MAJOR RAW MATERIAL INVESTMENTS ARE MASSIVE, NEW PROJECTS TAKE SEVERAL YEARS TO COMPLETE. IN SOME COUNTRIES, THE TRADITIONAL SOURCE OF FUNDS -- PRIVATE FOREIGN INVESTMENT -- IS NO LONGER AS WELCOME, NOR ARE INVESTORS AS INTERESTED, AS IN THE PAST.

20. THE UNITED STATES THEREFORE PROPOSES A MAJOR NEW INTERNATIONAL EFFORT TO EXPAND RAW MATERIAL RESOURCES IN DEVELOPING COUNTRIES.

21. THE WORLD BANK AND ITS AFFILIATES, IN CONCERT WITH PRIVATE SOURCES, SHOULD PLAY A FUNDAMENTAL ROLE. THEY CAN SUPPLY LIMITED AMOUNTS OF CAPITAL DIRECTLY; MORE IMPORTANTLY, THEY CAN USE THEIR TECHNICAL, MANAGERIAL AND FINANCIAL EXPERTISE TO BRING TOGETHER FUNDS FROM PRIVATE AND PUBLIC SOURCES. THEY CAN ACT AS INTERMEDIARY BETWEEN PRIVATE INVESTORS AND HOST GOVERNMENTS, AND LINK PRIVATE AND PUBLIC EFFORT BY PROVIDING CROSS GUARANTEES ON PERFORMANCE. WORLD BANK LOANS COULD FUND GOVERNMENT PROJECTS, PARTICULARLY FOR NEEDED INFRASTRUCTURE, WHILE THE INTERNATIONAL FINANCE CORPORATION COULD JOIN PRIVATE ENTERPRISE IN PROVIDING LOANS AND EQUITY CAPITAL. THE WORLD BANK GROUP SHOULD AIM TO MOBILIZE \$ ----- BILLION IN PRIVATE AND PUBLIC CAPITAL ANNUALLY.

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WWM IN ADDITION, THE UNITED STATES WILL CONTRIBUTE TO AND ACTIVELY SUPPORT THE NEW UNITED NATIONS REVOLVING FUND FOR NATURAL RESOURCES. THIS FUND WILL ENCOURAGE THE WORLDWIDE EXPLORATION AND EXPLOITATION OF MINERALS, AND THUS PROMOTE ONE OF THE MOST PROMISING ENDEAVORS OF ECONOMIC DEVELOPMENT.

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